

Intel Annual

INTEL CORPORATION'S ANNUAL REPORT

1992

flash memory



pentium™
PROCESSOR

LAN Products

Paragon™ Supercomputers

PCI local bus standard

ExCA™ card

Intel 486™ DX2
microprocessors

indeo™
INTEL VIDEO TECHNOLOGY

COMP™ Index

i960® processor

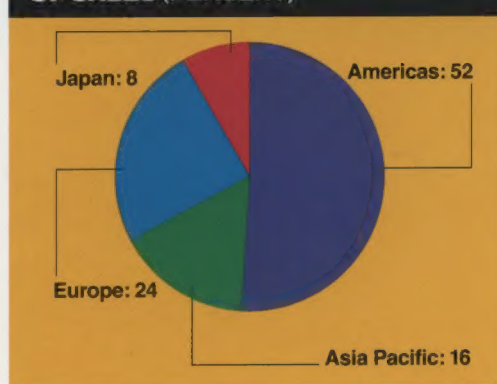
What's New? Intel Is.

OVERDRIVE™

OVERVIEW

Intel in Brief

**GEOGRAPHIC BREAKDOWN
OF SALES (PERCENT)**



History

Intel was founded in 1968 with the vision of designing and manufacturing very complex silicon "chips." The company's first products were semiconductor memory chips. In 1971, Intel introduced the world's first microprocessor, a development that changed not only the future of the company, but much of the industrial world. Increasingly, Intel's business strategy has been set by the directions that the microprocessor revolution has taken.

In 1993, Intel is celebrating its 25th year in business. The company focuses on supplying the building blocks for the "new computer industry" — an industry in which many key products are built around the PC architecture standard.

Major Customers

Intel sells its microcomputer compo-

nents, modules and systems directly to companies that incorporate them into their products. These are primarily computer systems manufacturers, but also include makers of automobiles and a wide range of industrial and telecommunications equipment. In addition, PC enhancements and networking products are sold through distributors, resellers and retail

stores worldwide. Intel sells supercomputers directly to end users.

Major Products

Microprocessors, also called central processing units (CPUs), provide the central control that directs the processing of data in PCs and other computer devices. **Microprocessor peripherals** are special-purpose chips that work with a CPU to manage selected input-output or other system functions. **Embedded control chips** are programmed to perform specific functions in such products as automobile engines, laser printers, disk drives, home appliances, etc. **Flash memory** provides easily reprogrammable memory for mobile computers, retaining data even when system power is turned off. **OEM (original equipment manufacturer) modules and systems** are based on Intel com-

ponents and sold to OEMs who integrate them into their products. **Supercomputer systems** are very high performance computers, with many microprocessors working in parallel. Once the exclusive province of scientists and engineers, these "massively parallel" computers are increasingly finding their way into business and financial applications as well. **PC enhancement products** are boards, components and software sold through retail stores to PC users who want to enhance the capabilities of their systems. These include products that let users plug into networks easily or boost the computing power of their systems. **Indeo™ video technology** is a new software that enables the playback of video clips on Intel386™ and Intel486™ CPU-based PCs without any special hardware. **DVI* multimedia hardware** provides real-time compression and recording of Indeo video and accelerates its playback.

Facilities

Intel has design, development, production and administration facilities throughout the western U.S., Europe and Asia.

Key Strategies

Intel supports the computing industry's needs for strategic products that provide performance, mobility, connectivity and digital video computing. The company does this through investing heavily in internal design, manufacturing and development capabilities; driving the evolution of new generations of high-performance products; providing many versions of its products to meet customers' diverse needs; educating users about the benefits of Intel technology; and vigorously protecting its intellectual property rights when necessary.

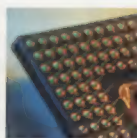
Intel is:

a leading supplier of microcomputer components, modules and systems. The company focuses largely on extending and enhancing the worldwide business computing standard based on the personal computer architecture created around Intel's microprocessors.

Today's desktop and portable systems deliver formidable computing performance. These powerful yet inexpensive computers are being connected into networks that allow many types of data to be shared. Intel's mission is to supply the building blocks that allow this new microprocessor-based computer industry to grow.

On the cover:

A sampling of the brands, products, programs and developments that are redefining Intel.



Intel Annual

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An introduction to Intel's history and major product groups.

2 Ninety-Two in Review

Intel's Executive Office reports on a great year.

4 Facts and Figures

Intel's financial highlights and industry comparisons at a glance.

6 New Products for New Needs

Intel's brainy chips drive everything from lightweight, full-power notebooks to massive supercomputers, plus video on your PC, and more.

9 Building the Intel Brand

How the Intel name is being associated with the best in quality, reliability and software compatibility.

10 Putting Intel on the Shelves

Available in retail outlets everywhere — products that enhance a PC's capabilities, make networks easier to install and use, and improve business communications — adding up to an exciting growth opportunity.

12 The Everyday Magic of Making Chips

Intel invested \$1.2 billion in capital programs in 1992 — more than any other semiconductor company — to keep up with the demand for our fast, high-performance chips.

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ninety-two IN REVIEW

1992 was a wild and exciting year in the personal computer industry. As demand for the Intel486 microprocessor family grew, we were pressed to keep up. It was a year of unprecedented growth for us, resulting in Intel's emergence as the largest semiconductor manufacturer in the world.

Revenues of \$5.84 billion were up 22 percent over 1991 and net income jumped over 30 percent, topping \$1 billion for the first time. Fueled by strong demand for our Intel486 microprocessor family, sales were vigorous in the majority of geographies. Europe was the fastest-growing market for our products this year.

Expansion of production capacity and new technology required us to increase capital spending to a record \$1.2 billion. When combined with research and development outlays, our investment in the future reached \$2 billion. We plan to continue this growth, with R&D and capital expenditures in excess of \$2.5 billion in 1993.

Intel486 CPU products booming

The computer industry continued to be characterized by turbulence and change. Computers are now sold through mass merchandising and direct marketing, supplementing more traditional sales channels. Prices have plummeted; today, \$1000 can buy a full-power Intel486 SX CPU-based PC.

Intel helped fuel this move by cutting prices significantly for certain versions of the Intel486 microprocessor. The price cuts were made possible as production volumes grew and manufacturing efficiencies were realized.

Users demand greater microprocessor performance to drive new, advanced software; in turn, faster hardware enables the development of still more advanced software. This spiral results in a strong movement toward the top end of the Intel microprocessor family, and we expect this trend to continue for some time.

Product news

We introduced several exciting new products in 1992. The DX2 processor lets original equipment manufacturers (OEMs) boost PC performance by up to 70 percent, without redesigning their systems. OverDrive™ processors give PC users similar performance boosts when plugged into an existing socket on many Intel486 SX and DX CPU-based systems. The Intel486 SL CPU brings power management and high performance to notebook computers.

The Pentium™ processor, the fifth generation of our compatible microprocessor line, is scheduled to be introduced in the first quarter of 1993. Capable of executing over 100 MIPS (million instructions per second), the Pentium

processor is up to five times more powerful than the 33-megahertz Intel486 DX microprocessor — and it still runs every one of the over 50,000 software programs written to date for the Intel architecture.

The booming PC business fueled a corresponding surge in demand for Intel's 32-bit i960® microprocessor, which is now the best-selling RISC (reduced instruction set computing) chip in the world in terms of units. The i960 processor is used where high performance is desired in applications ranging from printers to computer networking.

The PC business also fueled demand for our eight- and 16-bit microcontroller products. Used in PCs' hard disk drives and keyboard controllers, as well as in a wide range of business, communication and automotive applications, our embedded microcontroller products shipped at high volumes this year. We are stretching the capacity of our plants to produce more of these popular devices.

In memory products, we experienced severe shortages of flash chips as demand took off and a manufacturing subcontractor had difficulty ramping production. We are converting some existing EPROM (erasable programmable read-only memory) lines to flash production, and are working with another subcontractor to supplement our manufacturing capacity.

The Intel Products Group introduced a wide range of products for retail sale to PC users. In addition to OverDrive processors, another line of products makes it easier to build, use and manage



Left to right: Craig R. Barrett, Gordon E. Moore and Andrew S. Grove.

the local area networks (LANs) that tie PCs together for information-sharing. Key 1992 entries include the successful NetPort®II print server and the StorageExpress™ backup server.

Cooperation pays off

The success of the PC in the marketplace is largely due to the fact that it has been built on open standards, facilitating high-volume sales of relatively low-cost computing technology. We feel that more needs to be done to evolve new standards for the architecture, and we are proud to have been instrumental in facilitating cooperation among many industry members this year:

- We worked with industry leaders, including Compaq, DEC, IBM, NCR and others to develop the Peripheral Component Interface (PCI), which permits faster graphics and enhanced PC performance. To drive PCI as a standard, we are offering royalty-free licenses on three of our PCI-related patents.
- We were a catalyst in the development of the Desktop Management Interface, which provides a consistent way for network management software to interface with configuration data on PCs and workstations connected to the network. Other companies on the Desktop Management Task Force are DEC, Hewlett-Packard, IBM, Microsoft, Novell, Sun Microsystems and Synoptics.
- The Exchangeable Card Architecture (ExCA™) standard, developed by Intel in cooperation with industry leaders, defined how plug-in cards for mobile PCs interact with the operating systems of Intel CPU-based computers.
- We introduced Indeo video technology, which brings video capabilities to personal computers without requiring additional hardware. Indeo technology has been adopted by Microsoft, Apple Computer and IBM for use with many of their operating systems and applications.

Competitive response

Competitors began marketing imitations of the Intel486 microprocessor during the year. Intel has responded with increased emphasis on advancing designs, accelerating process technology evolution and developing several versions of Intel486 CPUs specialized for various market seg-

ments. In addition, our marketing programs aim to educate the user community about the advantages of genuine Intel processors.

An important ruling handed down by a U.S. Federal Court with respect to Intel's intellectual property means that no competitor can copy the software called microcode that is contained in the Intel486 processors and future processors. This makes it considerably more difficult for competitors to design compatible products.

New Directors

On January 19, we welcomed two new members to Intel's Board of Directors. Dr. Winston H. Chen, chairman of the board of Solecron Corporation, and Dr. Jane E. Shaw, president and chief operating officer of Alza Corporation, were elected by Intel's Board.

Leading the world

According to the market research firm Dataquest, Intel passed three companies to become the world's largest semiconductor manufacturer in 1992. This is the first time we have occupied this spot, and we would like to thank our customers, employees and stockholders for making it possible.

The company paid its first-ever cash dividend on Intel Common Stock in December 1992. We feel that the company has matured to the point where we can return a small percentage of our earnings directly to stockholders and still meet our capital needs, thus making it possible for our stockholders to realize some income without having to sell the stock. In this way, we believe that we will increase holdings of Intel stock by long-term investors.

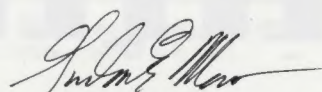
Looking to '93

1993 promises to be a very busy year for Intel. We look forward to the following developments in the coming year:

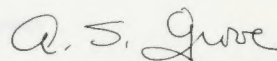
- The introduction of the Pentium processor and the further

proliferation of the Intel486 chip family;

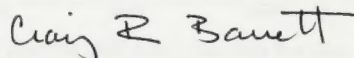
- Our new fabs coming on line in Leixlip, Ireland, and Santa Clara, California, with advanced 0.6-micron production processes;
- Expanded marketing programs to educate users on the value of the Intel brand;
- The introduction of new members of our retail PC enhancement product line, including more products to make PC networks easier to build, use and manage;
- Continued work with our industry partners to make digital video computing — rich audio/video communication via PC — a reality in the business place.



Gordon E. Moore
Chairman of the Board



Andrew S. Grove
President and Chief Executive Officer



Craig R. Barrett
Executive Vice President and Chief Operating Officer

On January 4, 1993, executive vice president Craig Barrett was named Intel's chief operating officer. As executive vice president, Craig has been managing Intel's internal day-to-day operations for the past three years; with this promotion, we are pleased to recognize his excellent record of service to the company.

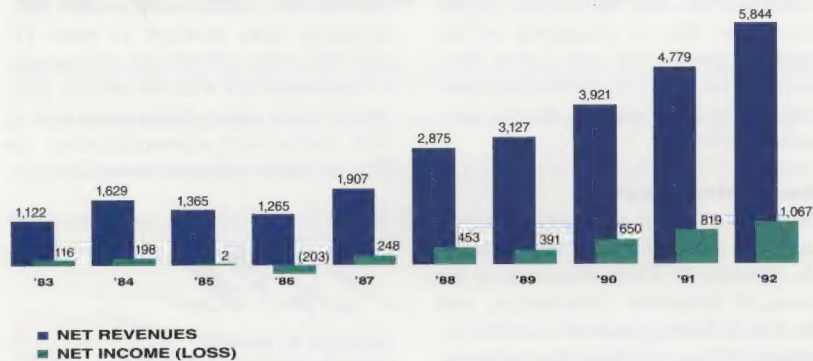


HIGHLIGHTS

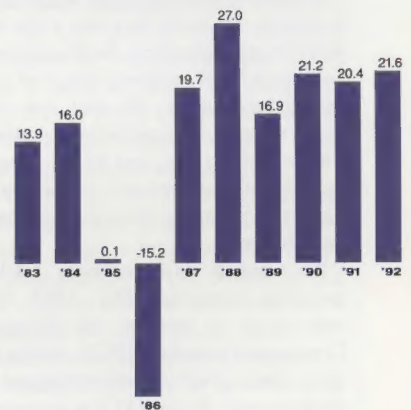
FACTS AND FIGURES

Intel financial highlights, industry comparisons and PC market trends at a glance.

1. NET REVENUES AND NET INCOME (LOSS) (DOLLARS IN MILLIONS)

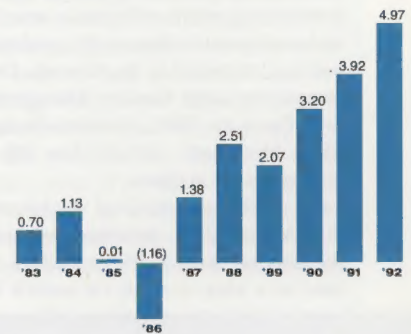


2. RETURN ON AVERAGE STOCKHOLDERS' EQUITY (PERCENT)



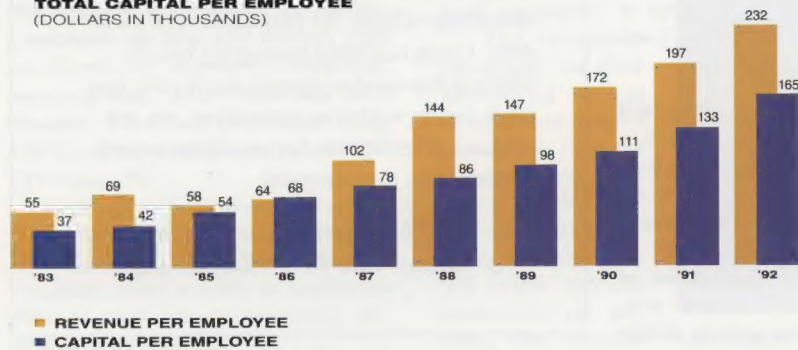
1-3. Intel's key economic indicators show strong growth. Return on equity remains strong on a rapidly growing investment base. Earnings per share demonstrates a similarly positive trend.

3. EARNINGS PER SHARE (IN DOLLARS)

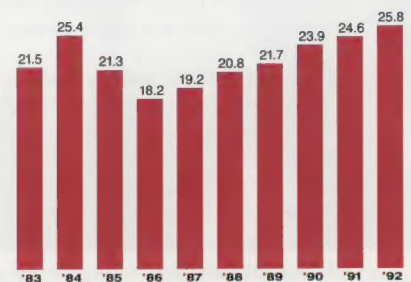


4-5. Growth in revenue per employee is one indicator of Intel's productivity. High levels of property, plant and equipment — total capital — per employee demonstrate the capital-intensive, highly automated nature of Intel's design, development and manufacturing activities.

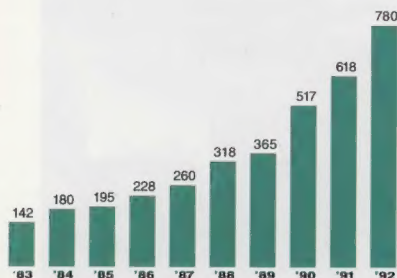
4. REVENUE PER EMPLOYEE AND TOTAL CAPITAL PER EMPLOYEE (DOLLARS IN THOUSANDS)



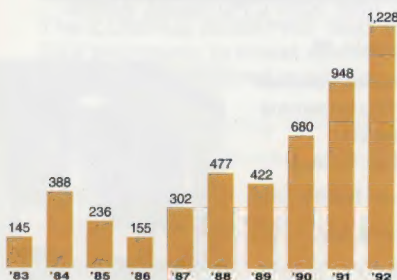
5. EMPLOYEES AT YEAR END (IN THOUSANDS)



6. RESEARCH AND DEVELOPMENT (DOLLARS IN MILLIONS)

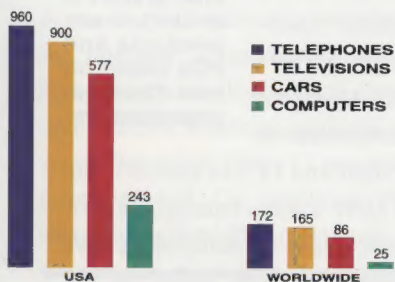


7. CAPITAL ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT (DOLLARS IN MILLIONS)



6-7. Intel spent a record \$2.0 billion on capital and research and development programs in 1992 — more than any other semiconductor manufacturer in the world. The Company plans to increase spending on these programs to \$2.5 billion in 1993.

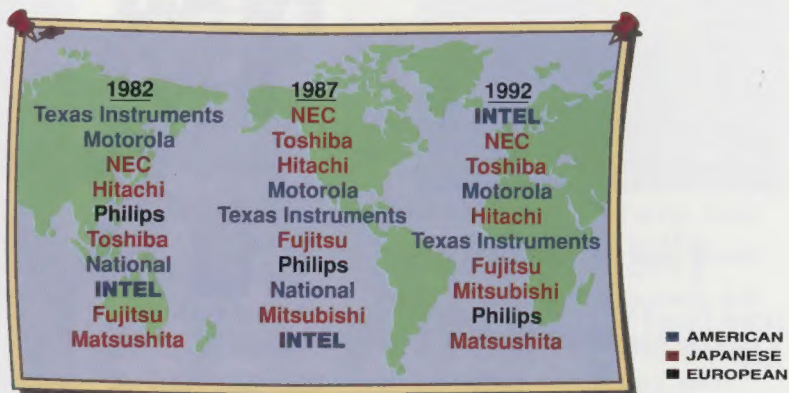
10. PHONES, TVs, CARS AND COMPUTERS IN USE (PER 1000 PEOPLE, 1990 AND 1991 DATA)



(Source: Motor Vehicle Manufacturers Association and Computer Industry Almanac)

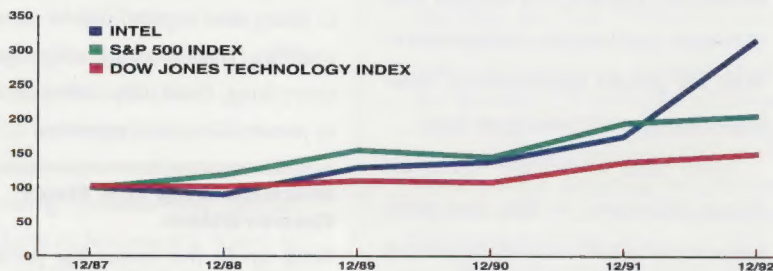
10-11. Since its introduction in 1981, the PC has become a fixture of businesses around the world, with 135 million units in use worldwide. However, compared to other ubiquitous tools such as telephones, TVs and cars, the PC market still has a lot of room to grow.

8. TOP 10 CHIP MAKERS IN THE WORLD



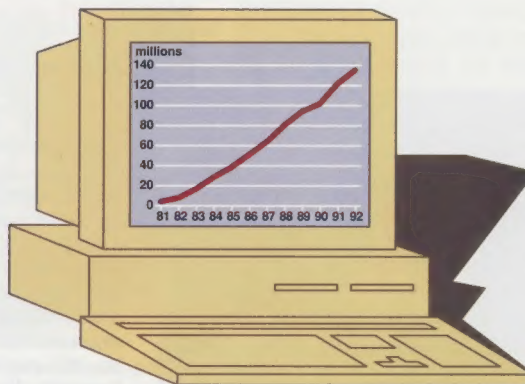
8. According to figures from the market research firm Dataquest, Intel was the world's largest semiconductor manufacturer in 1992, up from #10 in 1987.

9. STOCK PRICE PERFORMANCE (IN DOLLARS)



9. Intel's stock price has outperformed both the S&P 500 Index and the Dow Jones Technology Index (all amounts shown on a dividend reinvested basis). A hypothetical investment of \$100 in Intel at the end of December 1987 would be worth \$330 by the end of Intel's fiscal 1992. Past performance, of course, does not guarantee future success.

11. INSTALLED BASE OF PCs WORLDWIDE



(Source: International Data Corp.)

"There are only two kinds of companies: the quick and the dead." Intel president and CEO Andy Grove uses this phrase to remind the company that it lives in an unforgiving time.

The computer industry is changing faster and more dramatically than ever. PCs are increasingly available in superstores, at consumer electronics outlets and through mail-order companies. With PC prices plummeting, first-time users are flocking to buy.

Intel has benefited from all these changes: in the last year, sales of Intel486 microprocessors have quadrupled. But the environment demands continual alertness. In the following pages, we look at how Intel is responding.



Dell Computer Corporation, founded by chairman and CEO Michael Dell, left, is one of the companies which pioneered today's innovative new distribution channels. With hundreds of customer service representatives, it serves its PC customers largely through direct marketing, shipping customized PCs to users in five days or less.

new products for new needs

With competition heating up for everyone, Intel's hottest new products are those that offer computer makers and users a chance to bring new capabilities to standard systems. Intel's brainy chips power everything from tiny subnotebooks to powerful supercomputers.

Introducing the Next Generation

With up to five times the performance of the 33-MHz Intel486 DX CPU, the new Pentium processor is the next generation in the Intel family of standard microprocessors. Scheduled to be introduced in early 1993, this powerful processor is slated to become the brains for high-end PC systems, including

network servers and workstations—and is still fully compatible with every Intel X86 CPU-based system ever made. ■

Performance Boosts Made Easy

Part of Intel's job is to make PC manufacturers' jobs easier. The Intel486 DX2 microprocessor, introduced in early 1992, helps OEMs provide a wider range of products to their customers. The new chip's "speed-doubling" technology allows OEMs to boost the performance of their high-end PCs to speeds of up to 66 MHz without redesigning their systems. Many manufacturers have introduced systems based on the DX2 chip.

The OverDrive processor, which is an end-user installable processor



Intel is turning up everywhere. In the London area, a superstore called PC World is packed with Intel-brand PC enhancement products and PCs based on Intel 32-bit microprocessors.



The COMPAQ DESKPRO® 66M uses the new Intel486 DX2 processor to boost system performance by up to 70 percent compared to previous models.

upgrade for existing Intel486 SX and DX CPU-based systems, increases system performance to the same level as a DX2 CPU-based system. OverDrive processors are available through retail channels. ■

Options For Mobile Computing

Users want increased mobility with full desktop power—and Intel makes it possible with a range of Intel486 CPUs for notebook PCs. Intel offers the Intel486 DX2 CPU for highest performance, and the Intel486 DX and SX chips for affordable notebooks. In 1992, Intel also introduced the Intel486 SL microprocessor, a high-integration, low-voltage device optimized for notebook applications. As of December 1992, 72 manufacturers offered 174 notebook PCs based on the Intel486 architecture. ■

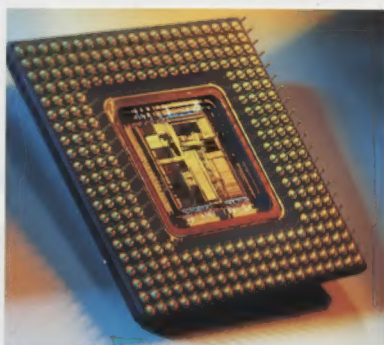
Bringing Video to the Desktop

Indeo video technology, introduced in November 1992, is an important

part of Intel's strategy to make the PC a true business communications tool. Adopted as a standard by Microsoft, IBM and Apple Computer, Indeo technology brings digital video to any Intel386 or Intel486 microprocessor-based computer, without any special

hardware. Video capabilities will help make communication via PCs easier and more natural.

Intel is licensing Indeo video technology for inclusion as an ingredient in operating systems and applications. Users of Microsoft's Video for Windows®, IBM's Multimedia Presentation Manager® and Apple's QuickTime® software can easily incorporate video files into their documents. ■



The new Pentium processor, packing more than three million transistors, will take its place as the new high-end microprocessor in Intel's chip family.



A Uniquely Powerful Strategy

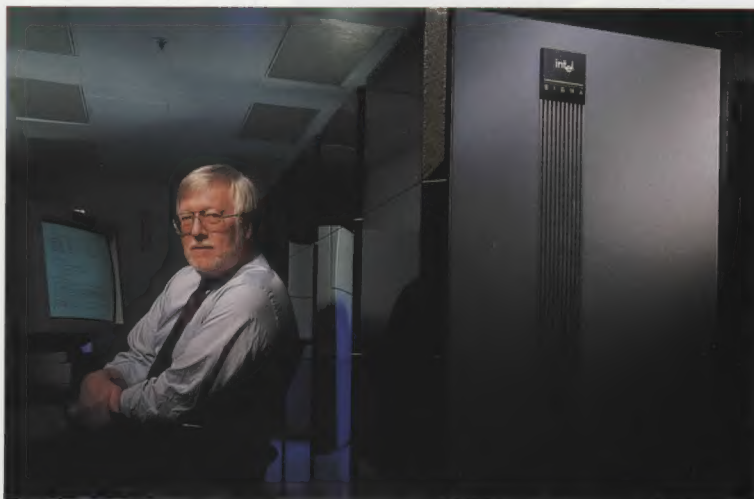
"Intel has a unique strategy—each new generation quickly becomes the most cost-effective choice for users." As senior vice president and Microprocessor Products Group general manager Albert Yu (right, above) explains, the new Pentium processor will take the high-end position in the Intel microprocessor family in 1993, as the Intel486 DX and DX2 processors move into the mainstream of business computing, and the Intel486 SX CPU becomes the standard for entry-level systems, displacing the seven-year-old Intel386 CPU.

"1992 brought the culmination of years of preparation on several fronts," says Paul Otellini (left, above), senior vice president and Microprocessor Products Group general manager. "The Intel486 microprocessor family ramped into full production, utilizing manufacturing capacity we've spent years putting into place. And our design teams produced the next generation chip in our X86 family, setting the stage for the next wave of high-performance PCs."

Innovations swept the entire microprocessor product line, as the low-power-consumption features of the Intel SL architecture were extended to all Intel microprocessors. "This power-saving technology will make for energy-efficient PCs across the board," notes vice president and Mobile Computing Group general manager Mike Aymar (center, above). The range of products greatly expands manufacturers' options for power and price.

Tackling Science's Grand Challenges

Working together, thousands of microprocessors can produce incredible computing power. In the fall of 1992, Intel shipped one of the world's most powerful supercomputers, the Intel Paragon™ X/PS supercomputer, to the Department of Energy's Oak Ridge National Laboratory (ORNL). ORNL scientists, along with members of the Partnership in Computational Science Consortium, plan to use the Paragon system's awesome number-crunching capabilities to track ground-water pollution patterns, model global climate changes and design new materials and alloys. ■



Ken Kliever, director of the Center for Computational Sciences at the Department of Energy's Oak Ridge National Laboratory in Oak Ridge, Tennessee, is one of the scientists who use Intel's massively parallel Paragon X/PS supercomputer to investigate some of the greatest computational challenges facing science and industry.

ness products such as disk drives, laser printers, networking products and communications applications.

Intel's i960 KA microprocessor gives Hewlett-Packard's new HP LaserJet® 4 and 4M printers the brainpower to print complex graphic documents quickly at high resolution.

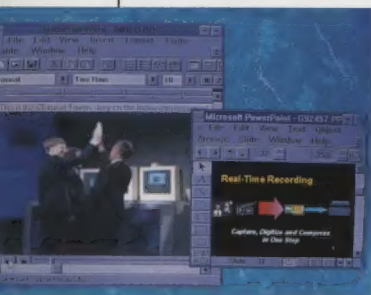
The Brainy Controller

The boom in sales of Intel486 chips is fueling a corresponding surge in demand for associated products for embedded applications. These products are programmed to perform the same function repeatedly, and are featured in key busi-

ness products such as disk drives, laser printers, networking products and communications applications. Intel's i960 processors are the company's high-end embedded microprocessor products, and Dataquest rated the product, in terms of units sold, as the number one 32-bit RISC microprocessor. The i960 processors are used in compute-intensive applications such as laser printers, mass storage control and computer networking products. ■



New Indeo video software brings digital video computing capabilities to any Intel386 or Intel486 CPU-based PC, without any special hardware. At its introduction, Microsoft president Bill Gates joined Intel president and CEO Andy Grove to demonstrate Indeo technology.



L to R: AST's PowerExec 4-25SL ColorPlus®, the COMPAQ LTE® Lite/25c and NEC's UltraLite® Auto-graph® are just a few of the newest mobile PCs based on the Intel486 SL CPU.

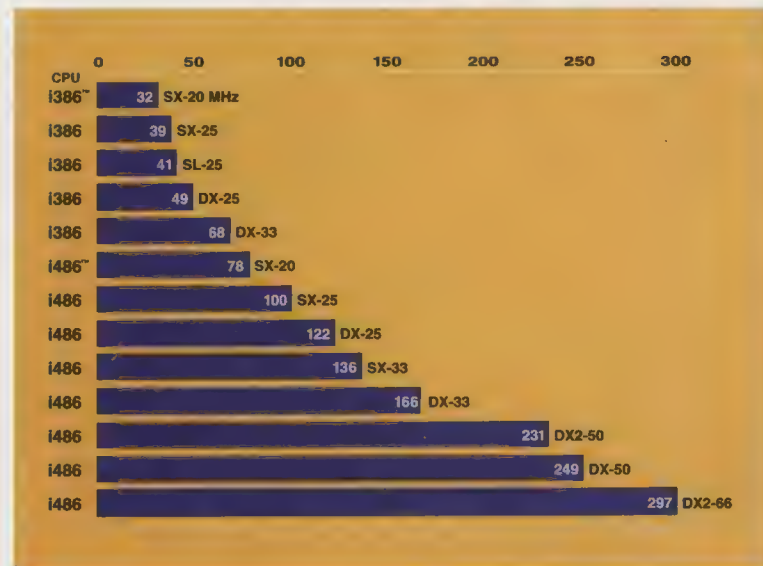
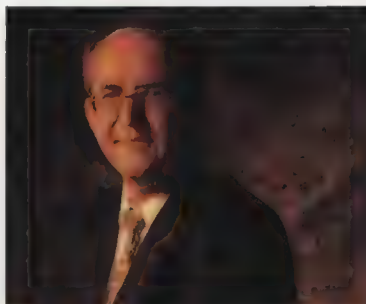
Building the Intel Brand

The Intel name got more visibility than ever in 1992, thanks to several television and print advertising campaigns designed to make PC users aware of the benefits of genuine Intel technology.

One TV spot promoted the mid-life upgradability available for Intel486 SX CPU-based systems; another ad described the huge range of software applications that await the user of

an Intel 32-bit CPU-based PC. The campaigns all stressed that by choosing an Intel CPU-based PC, users get the ultimate in quality, reliability and software compatibility.

Vobis Microcomputer A G of Germany sells its Intel CPU-based PCs through 160 retail stores across Europe. Says Vobis chairman Theo Lieven, right, "In this rapidly changing market, customers often have doubts about compatibility. The Intel Inside® logo lets our customers know that they are getting a reliable and compatible product."



It may be difficult for a non-technical PC user to understand the differences among the various Intel chips. To help clear up confusion, Intel introduced the iCOMP™ index (for Intel Comparative Microprocessor Performance). The index embodies in one number a weighted average of eight aspects of CPU performance, showing the relative performance of Intel's CPUs.

INTEL MEANS VALUE



Many visitors to computer stores are overwhelmed by the variety of computer systems available. How to choose? Intel is making at least one differentiation clear through its new Intel Inside program. Manufacturers who use Intel486 and Intel386 CPUs in their PCs are eligible to mark those PCs and their cartons with the Intel Inside logo, and to use the symbol in their product ads and brochures. Most of Intel's top CPU customers are participating, giving PC shoppers an easy way to tell a genuine Intel CPU-based PC from an imitation.

putting intel on the shelves

“We saw opportunities to make PCs more useful and powerful for users,” says senior vice president and Intel Products Group general manager Frank Gill, describing the company’s retail strategy. In the last few years, Intel has dramatically expanded its retail offerings, focusing on products that are easy for users to install themselves. “Users’ needs don’t end when their PCs are delivered,” Gill notes. “There is demand for products that allow people to enhance and upgrade their systems’ capabilities throughout the life of the PC.”

Intel’s foray onto the retail shelves is built around three families of prod-



Frank Gill, senior vice president and Intel Products Group general manager

ucts, each aimed at letting users expand their PCs’ functionality.

First is the OverDrive processor family of upgrade chips, which can be used in most Intel486 SX and DX CPU-based PCs. When a user is ready to upgrade his or her PC, he or she just goes to the store, buys an OverDrive processor, plugs it into the PC, and gets an instant performance improvement of up to 70 percent. Says Gill, “It’s a great mid-life kicker for a machine that would otherwise have to be traded in.”

Intel’s networking product family, launched in 1990, is now a booming business. The company focuses on easy-to-install items (so-called “plug-and-play” products) that make it easier to build, use and manage the local area networks (LANs) that tie PCs together for information-sharing. Key products include the very successful plug-and-play NetPort II print server and StorageExpress backup server. Also included in the networking product family are the TokenExpress™ and EtherExpress™ network adapter cards—add-in boards that make any PC network-

ready—and LANSight software which allows network administrators to monitor, analyze and fix network problems without leaving their own terminals.

The final retail product family is the business communications line, including such products as the award-winning SatisFAXtion® faxmodem boards for Microsoft Windows® and DOS systems, and other group productivity tools.

Users who buy Intel brand products are backed up by the company’s



One of Intel’s newest networking products, the StorageExpress backup server, controls the back-up and transfer of mission-critical data stored on network files.

extensive customer support. At multilingual customer support centers in Swindon, U.K.; Provo, Utah; Beaverton, Oregon; and Tsukuba, Japan, technicians stand by to answer customers’ questions over the phone or through Intel’s innovative FaxBACK® information service, which provides troubleshooting tips by return fax.

Intel Satisfaction
Great looking faxes. A cinch to use.

Intel Above Board

intel.

intel.

intel.

Intel OverDrive Processor
The powerful performance booster

Ability Plus
Software
Windows software no faxmodem
could be without.

intel.

Intel FAXability
Plus/OCR
Software

Intel TokenExpress
LAN Adapter
The network card you can plug in

intel.

intel.

Intel 2400e V.42bis Modem
Fast, reliable communications.

Intel EtherExpress
LAN Adapter
The network card you can plug and forget

A wide range of Intel brand products, available in computer dealerships, consumer electronics outlets and superstores, lets users upgrade and enhance their PCs' capabilities.

THE EVERYDAY MAGIC OF

Making Chips

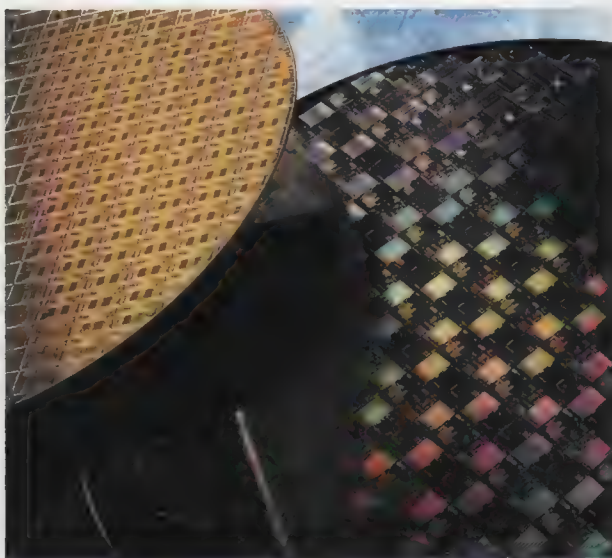


sers demand ever-increasing computing power to run their applications. In response, Intel has become famous for squeezing increasing numbers of transistors

onto a chip of silicon. The challenge is that each succeeding generation of technology requires more than twice the capital and manufacturing capacity for production. Under these demanding conditions, making silicon chips is part chemistry, part physics and part management magic.

The eight-inch wafers used in Intel's new 0.6-micron* technology process have almost twice the surface area of the old, industry-standard six-inch wafers. At the same time, new manufacturing efficiencies mean smaller chip sizes each generation, yielding up to four times more units per wafer.

*One micron is about one/100th the width of a human hair. The circuit lines on Intel's advanced processors are less than a micron in width.



“EVERY SECOND COUNTS...”

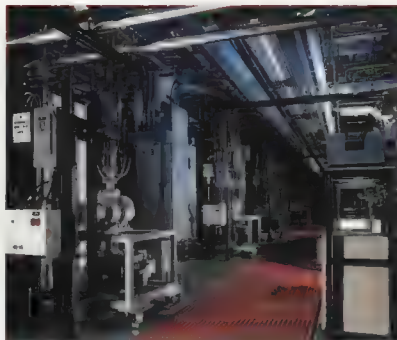


Senior vice president and general manager of the Technology and Manufacturing Group, Gerry Parker, has the challenging job of managing Intel's chip manufacturing and development plants. The company has responded quickly to faster-than-anticipated growth in the Intel486 CPU market. “We've eliminated many bottlenecks, replaced some equipment and gone to outside foundries to supplement capacity for other products,” Gerry explains. “By making every second count, we've substantially improved output at our existing factories.

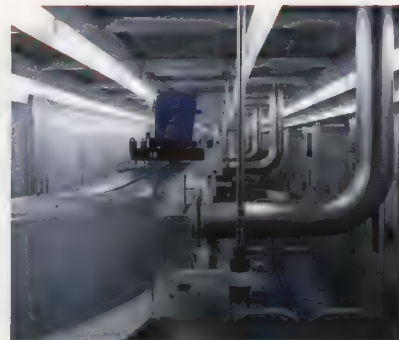
“Also, significant credit goes to our assembly and test plants, which responded to rapid product mix changes and achieved record yields, equipment output and throughput time reductions.”



Intel's new development facility in Aloha, Oregon, will create the company's most advanced manufacturing processes to date, to make future generations of high performance microprocessors.



The infrastructure needed to run a fab is buried in the sub-fab level, below the vibration-resistant floor of the clean room. Stainless-steel piping and other channels deliver natural gas, chemicals, clean water and electricity to the manufacturing equipment.



In many Intel plants, monorail systems transfer loads of wafers between production stations, speeding production and increasing efficiency and yields.



Construction is nearing completion at Intel's newest wafer fabrication facility, located in Leixlip, Ireland. This state-of-the-art plant is slated to produce future generations of high-end microprocessors for Intel's customers in Europe and around the world.



This magnified cross-section of a wafer, manufactured on Intel's three-layer metal logic process technology, reveals the minute structural detail of a chip. Thanks to this advanced interconnect technology, lines less than $\frac{1}{1000}$ the thickness of a human hair can be squeezed onto a small surface area to make Intel's fastest, most powerful processors.

CONSOLIDATED STATEMENTS OF INCOME

Three Years Ended December 26, 1992

1992

1991

1990

(In thousands — except per share amounts)

Net revenues	\$5,843,984	\$4,778,616	\$3,921,274
Cost of sales	2,557,407	2,315,559	1,930,288
Research and development	779,914	618,048	516,747
Marketing, general and administrative	1,016,617	765,069	615,904
Operating costs and expenses	4,353,938	3,698,676	3,062,939
Operating income	1,490,046	1,079,940	858,335
Interest expense	(54,659)	(81,786)	(99,363)
Interest income and other, net	133,162	196,475	227,289
Income before taxes	1,568,549	1,194,629	986,261
Provision for taxes	502,000	376,000	336,000
Net income	\$1,066,549	\$ 818,629	\$ 650,261
Earnings per common and common equivalent share	\$ 4.97	\$ 3.92	\$ 3.20
Weighted average common and common equivalent shares outstanding	214,729	208,989	202,911

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

December 26, 1992 and December 28, 1991

1992

1991

(In thousands - except per share amounts)

Assets

Current assets:

Cash and cash equivalents	\$1,842,447	\$1,519,047
Short-term investments	992,938	757,602
Accounts receivable, net of allowance for doubtful accounts of \$26,332 (\$9,234 in 1991)	1,069,151	698,171
Inventories	535,232	422,300
Prepaid taxes on income	204,759	181,161
Other current assets	46,427	25,740
Total current assets	4,690,954	3,604,021

Property, plant and equipment:

Land and buildings	1,463,149	1,097,526
Machinery and equipment	2,873,383	2,288,200
Construction in progress	311,197	258,430
	4,647,729	3,644,156
Less accumulated depreciation	1,831,801	1,481,433

Property, plant and equipment, net	2,815,928	2,162,723
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Long-term investments	495,946	479,752
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Other assets	85,760	45,608
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Total assets	\$8,088,588	\$6,292,104
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Liabilities and stockholders' equity

Current liabilities:

Short-term debt	\$ 196,070	\$ 173,258
Commercial paper	5,982	—
Long-term debt redeemable within one year	109,788	—
Accounts payable	280,523	168,836
Deferred income on shipments to distributors	149,496	121,741
Accrued compensation and benefits	435,098	369,086
Other accrued liabilities	306,245	243,130
Income taxes payable	358,670	151,716

Total current liabilities	1,841,872	1,227,767
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Long-term debt	249,028	362,529
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Deferred taxes on income	180,304	143,956
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Put warrants	372,750	140,000
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Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.001 par value, 50,000 shares authorized; none issued	—	—
Common stock, \$.001 par value, 350,000 shares authorized; 209,292 issued and outstanding in 1992 (203,923 in 1991)	209	204
Capital in excess of par value	1,775,327	1,640,432
Retained earnings	3,669,098	2,777,216

Total stockholders' equity	5,444,634	4,417,852
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Total liabilities and stockholders' equity	\$8,088,588	\$6,292,104
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See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Years Ended December 26, 1992

1992

1991

1990

(In thousands)

Cash and cash equivalents, beginning of year	\$1,519,047	\$1,619,648	\$1,063,734
Cash flows provided by (used for) operating activities:			
Net income	1,066,549	818,629	650,261
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	517,642	418,252	292,431
Net loss on retirements of property, plant and equipment	57,354	24,882	13,597
Amortization of debt discount	15,937	16,228	14,351
Change in prepaid and deferred taxes on income	12,750	(19,068)	(1,789)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(370,980)	11,487	(140,949)
(Increase) in inventories	(112,932)	(6,867)	(68,356)
(Increase) decrease in other assets	(60,839)	31,354	(33,785)
Increase (decrease) in accounts payable	111,687	(40,529)	44,013
Increase (decrease) in income taxes payable	206,954	(89,385)	74,584
Tax benefit from employee stock plans	54,658	35,246	21,724
Increase in other liabilities	135,954	149,268	151,831
Total adjustments	568,185	530,868	367,652
Net cash provided by operating activities	1,634,734	1,349,497	1,017,913
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(1,228,201)	(948,289)	(679,546)
Sales and maturities of investments	41,291	36,756	38,261
Additions to investments	(292,821)	(547,394)	(237,663)
Net cash (used for) investing activities	(1,479,731)	(1,458,927)	(878,948)
Cash flows provided by (used for) financing activities:			
Additions to short-term debt, net of repayments	22,812	1,928	33,468
Increase (decrease) in commercial paper, net	5,982	(31,897)	31,897
Additions to long-term debt	—	1,696	1,288
Retirement of long-term debt	(19,650)	(75,369)	(20,422)
Proceeds from sales of shares through employee stock plans and other	138,530	98,252	79,668
Proceeds from exercise of warrants, net	—	—	393,426
Proceeds from sales of put warrants, net of repurchases	41,585	14,219	—
Repurchase and retirement of common stock	—	—	(102,376)
Payment of dividends to stockholders	(20,862)	—	—
Net cash provided by financing activities	168,397	8,829	416,949
Net increase (decrease) in cash and cash equivalents	323,400	(100,601)	555,914
Cash and cash equivalents, end of year	\$1,842,447	\$1,519,047	\$1,619,648
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 31,800	\$ 58,500	\$ 68,400
Income taxes	\$ 227,700	\$ 447,500	\$ 241,500

Certain 1990 and 1991 amounts have been reclassified to conform to the 1992 presentation
See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Years Ended December 26, 1992 (In thousands)	Common stock		Capital in excess of par value	Retained earnings	Total
	Number of shares	Amount			
Balance at December 30, 1989	184,516	\$ 185	\$1,165,191	\$1,383,427	\$2,548,803
Proceeds from sales of shares					
through employee stock plans,					
tax benefit of \$21,724 and other	4,243	4	101,388	—	101,392
Proceeds from exercise of warrants, net	14,103	14	393,412	—	393,426
Repurchase and retirement of					
common stock	(3,211)	(3)	(87,436)	(14,937)	(102,376)
Net income	—	—	—	650,261	650,261
Balance at December 29, 1990	199,651	200	1,572,555	2,018,751	3,591,506
Proceeds from sales of shares					
through employee stock plans,					
tax benefit of \$35,246 and other	4,272	4	133,494	—	133,498
Proceeds from sales of put warrants	—	—	14,219	—	14,219
Reclassification of put warrant obligation	—	—	(79,836)	(60,164)	(140,000)
Net income	—	—	—	818,629	818,629
Balance at December 28, 1991	203,923	204	1,640,432	2,777,216	4,417,852
Proceeds from sales of shares					
through employee stock plans,					
tax benefit of \$54,658 and other	5,369	5	193,183	—	193,188
Proceeds from sales of put warrants, net of					
repurchases	—	—	41,585	—	41,585
Reclassifications of put warrant obligation, net ...	—	—	(99,873)	(132,877)	(232,750)
Cash dividends declared (\$.20 per share)	—	—	—	(41,790)	(41,790)
Net income	—	—	—	1,066,549	1,066,549
Balance at December 26, 1992	209,292	\$ 209	\$1,775,327	\$3,669,098	\$5,444,634

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

FISCAL YEAR

Intel Corporation ("Intel" or "the Company") has a fiscal year that ends the last Saturday in December. Fiscal years 1992, 1991 and 1990, each 52-week years, ended on December 26, 28 and 29, respectively. The next 53-week year will end on December 31, 1994.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Intel Corporation and all of its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Accounts denominated in foreign currencies have been remeasured into the functional currency in accordance with Statement of Financial Accounting Standards (FAS) No. 52 "Foreign Currency Translation," using the U.S. dollar as the functional currency.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates actual cost on an average or first-in, first-out basis). Market is based upon estimated average selling price reduced by normal gross margin. Inventories at fiscal year-ends are as follows:

(In thousands)	1992	1991
Materials and purchased parts	\$104,723	\$ 70,570
Work in process	220,293	147,951
Finished goods	210,216	203,779
Total	\$535,232	\$422,300

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally by use of the straight-line method over the estimated useful lives of the assets. The Company uses accelerated methods of computing depreciation for tax purposes.

DEFERRED INCOME ON SHIPMENTS TO DISTRIBUTORS

Certain of Intel's sales are made to distributors under agreements allowing price protection and/or right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are highly liquid investments with insignificant interest rate risk and original maturities of three months or less. They are carried at cost which approximates fair value.

INTEREST

Interest and gains and losses related to contractual agreements to hedge certain investment positions and debt (see Other Financial Instruments) are recorded as net interest income or net interest expense on a monthly basis. Interest expense capitalized as a component of construction costs was \$11.4 million, \$6.0 million and \$3.1 million for 1992, 1991 and 1990, respectively.

ACCOUNTING FOR INCOME TAXES

The Company uses the liability method of accounting for income taxes pursuant to FAS No. 96. Adoption in fiscal 1993 of FAS No. 109 is not expected to have a material effect on the Company's financial statements.

EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

Earnings per common and common equivalent share is computed using the weighted average number of outstanding common shares and dilutive common equivalent shares outstanding. Fully diluted earnings per share has not been presented as part of the consolidated statements of income because the differences are insignificant.

COMMON STOCK

STOCK REPURCHASE PROGRAM

In 1990, the Board of Directors of Intel Corporation authorized the repurchase of up to 20 million shares of the Company's Common Stock in open market or negotiated transactions. As of December 26, 1992, 16.8 million shares remain available for repurchase. The Company made no repurchases in 1991 or 1992. (See Put Warrants.)

COMMON STOCK PURCHASE RIGHTS

In April 1989, the Board of Directors of Intel authorized the issuance of one Common Stock Purchase Right (a "Right") for each share of Common Stock. The Rights trade automatically with shares of the Company's Common Stock and may not be exercised or traded separately until certain events occur, including the announcement of an offer to acquire at least 20% of the Company's outstanding Common Stock. After becoming exercisable, each Right entitles its holder to purchase one share of Common Stock of Intel at \$120 per share. In addition, after any person (an "Acquiring Person") acquires 20% or more of the Company's outstanding Common Stock in a transaction which the Board of Directors has not determined to be in the best interests of the Company and its stockholders, each Right (other than those held by the Acquiring Person) entitles its holder to purchase for the exercise price that number of shares of Common Stock having a market value of two times the exercise price. Also, if after a person has become an Acquiring Person, the Company is a party to a merger or other business combination, each Right (other than Rights held by the Acquiring Person) entitles its holder to purchase for the exercise price that number of shares of

common stock of the surviving corporation worth two times the exercise price.

At any time before the tenth day after a person becomes an Acquiring Person, the Company may redeem the Rights, in whole but not in part, at a redemption price of \$.01 per Right. In addition, at any time after a person becomes an Acquiring Person and prior to such Acquiring Person owning 50% or more of the outstanding Common Stock, the Company may exchange the Rights (other than Rights held by the Acquiring Person) in whole or in part, at an exchange ratio of one Common Share per Right. The Rights will expire, if not earlier redeemed or exchanged, on May 1, 1999. The exercise price, redemption price and exchange ratio are subject to adjustment under certain circumstances.

PUT WARRANTS

In a series of private placements in 1991 and 1992, the Company sold put warrants that entitle the holder of each warrant to sell one share of Common Stock to the Company, at a specified price, if the holder exercises the warrant. Activity during these years is summarized as follows:

(In thousands)	Cumulative Proceeds Received (Paid)	Put Warrants Outstanding	
		Number of Warrants	Potential Obligation
December 29, 1990	—	—	—
Sales	\$14,219	3,500	\$140,000
December 28, 1991	14,219	3,500	140,000
Sales	42,235	7,000	372,750
Repurchases	(650)	(2,600)	(104,000)
Expirations	—	(900)	(36,000)
December 26, 1992	\$55,804	7,000	\$372,750

The amount related to the Company's potential buyback obligation has been removed from Stockholders' Equity and recorded as Put Warrants. The 7 million put warrants outstanding at December 26, 1992 expire on various dates between March 1993 and May 1994 and have exercise prices ranging from \$46.00 to \$65.00. At the prevailing market prices for the Company's Common Stock, there was no dilutive effect on earnings per share in 1991 or 1992.

BORROWINGS

SHORT-TERM DEBT

Short-term debt at December 26, 1992 consisted of \$3.6 million of notes payable, \$126.1 million borrowed under foreign and domestic lines of credit, and \$66.4 million borrowed under other arrangements. At December 26, 1992, the Company and its subsidiaries had established foreign and domestic lines of credit of approximately \$750 million. These lines are generally renegotiated on an annual basis. The

Company complies with compensating balance requirements related to certain of these lines of credit; however, such requirements are immaterial and do not legally restrict the use of cash. The weighted average interest rate on notes payable and borrowings under lines of credit outstanding at December 26, 1992 was approximately 14.1%. This rate is high due to a foreign currency borrowing of \$31.9 million at an average rate of 34.2% to hedge certain net assets in that currency. Short-term debt is generally due within three months or on demand. It is carried at cost which approximates fair value due to the short period of time to maturity.

COMMERCIAL PAPER

The Company borrows under commercial paper programs under which the aggregate outstanding balance reached \$689 million in 1992 and \$693 million in 1991. This debt is rated A1+ by Standard and Poor's and P1 by Moody's Investor Service. The proceeds are used to fund short-term working capital needs of the Company. Commercial paper is carried at cost which approximates fair value due to the short period of time to maturity.

LONG-TERM DEBT

Long-term debt at fiscal year-ends is as follows:

(In thousands)	1992	1991
Payable in U.S. dollars:		
1983 Series A Industrial, Medical and Environmental Pollution Control Revenue Bonds	\$ 79,811	\$ 79,534
1983 Series B Industrial, Medical and Environmental Pollution Control Revenue Bonds	29,977	29,952
Zero Coupon Notes, net of unamortized discount of \$44,605 (\$69,151 in 1991)	142,611	147,194
8½% Notes	98,296	98,259
Other U.S. dollar debt	4,500	4,500
Foreign currency debt	3,621	3,125
(Less redeemable long-term debt)	(109,788)	—
(Less current portion of long-term debt)	—	(35)
Total long-term debt	\$249,028	\$362,529

The \$80 million 1983 Series A Bonds and \$30 million 1983 Series B Bonds were issued by the Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority. The Company has guaranteed repayment of principal and interest on these bonds, which are subject to redemption prior to maturity upon the occurrence of certain events. The bonds are adjustable and redeemable (at the option of either the Company or the bondholder) every five years from 1988 through 2008 in accordance with certain formulas.

The Series A Bonds are due September 1, 2013, and were last repriced and a portion of such Bonds remarketed at a discount on September 1, 1988, at an effective yield of 6.9%

through August 1993. They are next adjustable and redeemable on September 1, 1993. As of December 26, 1992, their fair value was \$81.4 million, based on quoted market prices for similar securities.

The Series B Bonds are due December 1, 2013, and were last repriced and remarketed at a discount on December 1, 1988, at an effective yield of 6.8% through November 1993. They are next adjustable and redeemable on December 1, 1993. As of December 26, 1992, their fair value was \$30.5 million, based on quoted market prices for similar securities.

As a result of the September and December 1993 redemption options, the Series A and B bonds have been included with current liabilities at December 26, 1992. If this debt is renewed for the next five year period at renegotiated interest rates, as expected, it will be classified as long-term debt at December 25, 1993.

On May 20, 1985, the Company issued \$236.5 million aggregate principal amount of zero coupon notes. The notes are due May 15, 1995 and have an effective yield to maturity of 11.75%, compounded semiannually, with interest payable at maturity. In 1992, \$29.1 million principal amount of the notes were repurchased by the Company on the open market. As of December 26, 1992, the fair value of the notes was \$163.5 million, based on quoted market prices for similar securities.

On April 1, 1987, the Company completed a public offering of \$110 million aggregate principal amount of 8½% notes. The notes are due March 15, 1997 and are redeemable on or after March 15, 1994 at the option of the Company. As of December 26, 1992, their fair value was \$104.0 million, based on quoted market prices for similar securities.

Other U.S. dollar debt and foreign currency debt are at floating interest rates. As of December 26, 1992, their fair values approximated carrying value since they are repriced frequently at market rates.

In 1988 the Company filed a Registration Statement with the Securities and Exchange Commission (SEC) relating to a proposed public offering of up to \$150 million of debt securities and up to 2 million foreign currency exchange units. The securities may be sold by the Company from time to time. In November 1992, the Company filed a Registration Statement with the SEC relating to a proposed public offering of Stock Index Warrants with an aggregate initial price of up to \$150 million. No debt, units or warrants had been issued under these Registration Statements as of December 26, 1992.

As of December 26, 1992, aggregate debt maturities are as follows: 1993 — \$110 million; 1994 — none; 1995 — \$187 million; 1996 — none; 1997 — \$98 million; and thereafter — \$8 million.

INVESTMENTS

Investments consist of time deposits, certificates of deposit, U.S. and European commercial paper, Euro-time deposits, U.S. and foreign government obligations, U.S. Government Agencies' obligations, corporate bonds, fixed and floating rate notes, loan participations, municipal obligations, collateralized mortgage obligations, hedged equity investments, money market preferred stock and investments made under repurchase agreements. Investments denominated in foreign currencies are hedged by currency forward contracts or by currency interest rate swaps. Investments with maturities of greater than one fiscal year are classified as long term.

At December 26, 1992, the fair value of long-term investments at fixed rates was approximately \$48.5 million, compared to \$46.3 million carrying value. Fair values of fixed rate investments are based on quoted market prices for similar securities. The fair value of long-term investments at floating rates, or swapped to floating rates with interest rate swaps, approximates carrying value since they are repriced frequently at market rates. The fair value of short-term investments approximates carrying value due to either the short period of time to maturity or the fact that they have been swapped to floating rates with interest rate swaps.

Investments consist primarily of AA or better quality bonds and investments with AA or better rated counterparties for long-term transactions and A1 or P1 or better rated counterparties for short-term transactions. Foreign government regulations imposed upon investment alternatives of foreign subsidiaries or the absence of AA rated financial institutions in some countries result in some minor exceptions. Collateral has been obtained and secured from counterparties against investments whenever deemed necessary. At December 26, 1992, investments were placed with approximately 60 different financial institutions or other issuers, and no individual security, financial institution, or issuer exceeded 10% of total investments.

OTHER FINANCIAL INSTRUMENTS

The Company enters into various off-balance-sheet financial transactions including currency forward contracts, currency options, interest rate swaps, and currency interest rate swaps to hedge its currency and interest rate exposures. Those instruments involve, to varying degrees, elements of market and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

At December 26, 1992, the outstanding face amounts of currency forward contracts totaled approximately \$462 million (\$556 million at December 28, 1991), including \$80 million (\$235 million at December 28, 1991) which hedge foreign currency investments. Other outstanding contracts include \$24 million of currency options (\$19 million at December 28, 1991), \$258 million of debt interest rate swaps (\$356 million at December 28, 1991) and \$714 million of investment interest rate swaps (\$583 million at December 28, 1991).

While the contract or notional amounts often are used to express the volume of these transactions, the amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations exceed the obligations of the Company. At December 26, 1992, the fair value of outstanding off-balance-sheet instruments based on pricing models using current market rates were: currency forward contracts, \$0.8 million; currency options, \$0.3 million; and debt interest rate swaps, \$13.6 million. The fair value of investment interest rate swaps has been included with the fair value of the related underlying investments. These off-balance-sheet instruments offset currency and interest rate exposure of certain underlying assets, liabilities and commitments. The Company controls credit risk through credit approvals, limits and monitoring procedures. Credit rating policies similar to those for investments are followed for off-balance-sheet transactions.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of investments and trade receivables. The Company places its investments with high-credit-quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. A majority of the Company's trade receivables are derived from sales to manufacturers of microcomputer systems with the remainder spread across various other industries. The Company keeps pace with the evolving microcomputer industry and has adopted credit policies and standards to accommodate the industry's growth. During 1992, in keeping with changes in the microcomputer industry, the Company began selling to customers that were less well established, and increased its allowance for doubtful accounts accordingly. Management believes that any risk of accounting loss is significantly reduced due to the diversity of its products, end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral, such as letters of credit and bank guarantees, whenever deemed necessary.

INTEREST INCOME AND OTHER

(In thousands)	1992	1991	1990
Interest income	\$141,445	\$194,318	\$203,351
Foreign currency (losses) gains	(1,042)	3,251	2,689
Other income (loss)	(7,241)	(1,094)	21,249
Total	\$133,162	\$196,475	\$227,289

Other loss for 1992 includes a provision to cover the Company's liability for damages payable under an arbitration decision (see Contingencies), partially offset by income from incentive credits. Other loss for 1991 includes a loss on the disposal of certain portions of the Company's customer ser-

vice operations and the writedown of goodwill related to an acquisition, offset in part by gains on the sale of investments and land. Other income for 1990 includes gains on the sale of investments and land and income from export incentives.

PROVISION FOR TAXES

Income before taxes and the provision for taxes consist of the following:

(In thousands)	1992	1991	1990
Income before taxes:			
U.S.	\$ 923,836	\$ 670,331	\$ 422,679
Foreign	644,713	524,298	563,582
Total income before taxes:	\$1,568,549	\$1,194,629	\$ 986,261
Provision for taxes:			
Federal:			
Current	\$ 339,322	\$ 270,996	\$ 245,964
Deferred (prepaid)	5,957	(16,081)	(12,413)
	345,279	254,915	233,551
State:			
Current	70,585	58,136	50,115
Foreign:			
Current	79,343	65,936	41,710
Deferred (prepaid)	6,793	(2,987)	10,624
	86,136	62,949	52,334
Total provision for taxes:	\$ 502,000	\$ 376,000	\$ 336,000
Effective tax rate	32.0%	31.5%	34.1%

The provision for taxes reconciles to the amount computed by applying the statutory Federal rate of 34% to income before taxes as follows:

(In thousands)	1992	1991	1990
Computed expected tax	\$533,307	\$406,174	\$335,329
State taxes, net of Federal benefits	46,586	38,370	33,076
Research and experimental credit	(6,700)	(11,900)	(12,500)
Foreign sales corporation benefit	(36,000)	(35,000)	(15,900)
Reduction of taxes provided in prior periods	—	(20,000)	—
Provision for combined foreign and U.S. taxes on certain foreign income at rates less than U.S. rate	(17,057)	(15,674)	(15,817)
Other	(18,136)	14,030	11,812
Provision for taxes	\$502,000	\$376,000	\$336,000

Deferred (prepaid) income taxes result from differences in the timing of certain revenue and expense items for tax and financial reporting purposes. The sources and tax effects of these differences are as follows:

(In thousands)	1992	1991	1990
Inventory valuation and other reserves	\$ (17,958)	\$ (55,194)	\$ (35,565)
Unremitted earnings of certain subsidiaries	749	6,824	24,751
Depreciation	41,952	24,867	21,274
Other, net	(11,993)	4,435	(12,249)
Deferred (prepaid) income taxes	\$ 12,750	\$ (19,068)	\$ (1,789)

The Company's U.S. income tax returns for the years 1978 through 1982 have been examined by the Internal Revenue Service. In June 1989, the Company received a notice of proposed deficiencies from the Internal Revenue Service totaling \$36 million, exclusive of penalties and interest, for the years 1978 through 1982. These proposed deficiencies relate primarily to subsidiary operations in Puerto Rico. In September 1989, the Company filed a petition in the U.S. Tax Court contesting these proposed deficiencies. No decision has been rendered. The Company has reached settlement of certain issues with the Internal Revenue Service. As a result of this settlement, the Company's 1991 provision for taxes reflects a \$20 million reduction of taxes provided in prior periods. Management believes that adequate amounts of tax and related interest and penalties, if any, have been provided for any adjustments which may result from the unsettled portion of the case.

The Company's U.S. income tax returns for the years 1983 through 1987 are presently under examination by the Internal Revenue Service. Management believes that adequate amounts of tax and related interest and penalties, if any, have been provided for any adjustments which may result for the years under examination.

EMPLOYEE BENEFIT PLANS

STOCK OPTION PLANS

The Company has stock option plans (hereafter referred to as the EOP Plans) under which officers, key employees and, starting in 1990, non-employee directors may be granted options to purchase shares of the Company's authorized but unissued Common Stock. The Company also has an Executive Long-Term Stock Option Plan (ELTSOP) under which

certain key executive officers may be granted options to purchase shares of the Company's authorized but unissued Common Stock. Under both the EOP and ELTSOP plans, the option purchase price is not less than the fair market value at date of grant.

Options currently expire no later than ten years from date of grant. Proceeds realized by the Company as a result of transactions in these plans are credited to Common Stock and capital in excess of par value. Additional information with respect to EOP plans is as follows:

(In thousands)	Shares Available For Options	Outstanding Options	
		Number of Shares	Aggregate Price
December 30, 1989	4,824	19,572	\$412,950
Additional shares reserved	20,000	—	—
Options granted	(3,958)	3,958	153,432
Options exercised	—	(2,864)	(41,985)
Options canceled	763	(763)	(19,907)
Options canceled under expired plans	(12)	—	—
December 29, 1990	21,617	19,903	504,490
Options granted	(3,344)	3,344	154,307
Options exercised	—	(2,954)	(48,480)
Options canceled	816	(816)	(25,576)
Options canceled under expired plans	(12)	—	—
December 28, 1991	19,077	19,477	584,741
Options granted	(3,652)	3,652	194,527
Options exercised	—	(3,818)	(77,652)
Options canceled	930	(930)	(33,084)
December 26, 1992	16,355	18,381	\$668,532
Options exercisable at:			
December 29, 1990		5,697	\$ 89,874
December 28, 1991		5,740	\$100,575
December 26, 1992		4,890	\$109,107

The average exercise price for options outstanding at December 26, 1992 was \$36.37 and the range of individual exercise prices was \$12.17 to \$78.25. Individual options outstanding at that date will expire if not exercised at specific dates ranging from January 1993 to December 2002. The range of exercise prices for options exercised during the three year period ended December 26, 1992 was \$7.04 to \$53.63.

Additional information with respect to the ELTSOP Plan is as follows:

(In thousands)	Shares Available For Options	Outstanding Options	
		Number of Shares	Aggregate Price
December 30, 1989	3,000	2,000	\$ 58,738
December 29, 1990	3,000	2,000	58,738
Options exercised	—	(70)	(2,056)
Options canceled	180	(180)	(5,288)
December 28, 1991	3,180	1,750	51,394
Options exercised	—	(155)	(4,551)
Options canceled	90	(90)	(2,644)
December 26, 1992	3,270	1,505	\$ 44,199
Options exercisable at:			
December 29, 1990		—	—
December 28, 1991		220	\$ 6,461
December 26, 1992		230	\$ 6,754

The average exercise price for options outstanding at December 26, 1992 was \$29.37 and the range of individual exercise prices was \$29.25 to \$29.38. Individual options outstanding at that date will expire if not exercised at specific dates ranging from April 1999 to August 1999. The price range for options exercised during the three year period ended December 26, 1992 was \$29.25 to \$29.38.

STOCK PARTICIPATION PLAN

Under this plan, qualified employees are entitled to purchase shares of the Company's Common Stock at 85% of the fair market value at certain specified dates. Of the 29.5 million shares authorized to be issued under this plan, as amended, 9.8 million shares are available for issuance at December 26, 1992. Employees purchased 1.3 million shares in 1992 (1.3 million and 1.4 million in 1991 and 1990, respectively) for \$56.5 million (\$48.5 million and \$39.3 million in 1991 and 1990, respectively).

RETIREMENT PLANS

Effective July 1, 1979 and January 1, 1988, the Company adopted profit sharing retirement plans (the "Profit Sharing Plans") for the benefit of qualified employees in the U.S. and Puerto Rico, respectively. The plans are designed to provide employees with an accumulation of funds at retirement and provide for annual discretionary contributions to trust funds.

Effective December 1, 1991, the Company adopted a non-qualified profit sharing retirement plan (the "Non-Qualified Plan") for the benefit of qualified employees in the U.S. This plan is designed to permit certain discretionary employer contributions in excess of the tax limits applicable to the profit sharing retirement plans discussed above and to permit certain employee deferrals in excess of certain tax limits. This plan is intended to be an unfunded plan.

The Company accrued \$93 million for the Profit Sharing Plans and the Non-Qualified Plan in 1992 (\$136 million in 1991 and \$123 million in 1990). Of the \$93 million accrued in 1992, the Company expects to fund approximately \$90 million for the 1992 contribution to the Profit Sharing Plans and to allocate approximately \$1 million for the Non-Qualified Plan. The remainder, plus approximately \$125 million carried forward from prior years, is expected to be contributed to these plans when allowable under IRS regulations and plan rules.

Contributions made by the Company vest based on the employee's years of service. Vesting begins after three years of service in 20% annual increments until the employee is 100% vested after seven years.

Effective January 1, 1988, the Company adopted qualified defined benefit pension plans for the benefit of qualified employees in the U.S. and Puerto Rico. Each plan provides for minimum pension benefits which are determined by a participant's years of service, final average compensation (taking into account the participant's social security wage base), and the value of the Company's contributions, plus earnings, in the Profit Sharing Plan. If the balance in the participant's Profit Sharing Plan exceeds the pension guarantee, the participant will receive benefits from the Profit Sharing Plan only. The Company's funding policy is consistent with the funding requirements of Federal laws and regulations.

Pension expense for 1992, 1991 and 1990 for the U.S. and Puerto Rico plans included the following components:

(In thousands)	1992	1991	1990
Service cost-benefits earned during the year	\$ 922	\$1,183	\$1,017
Interest cost of projected benefit obligation	572	800	649
Actual investment (return) loss on plan assets	(213)	(713)	44
Net amortization and deferral	(388)	752	(99)
Net pension expense	\$ 893	\$2,022	\$1,611

The funded status of these plans as of December 26, 1992 and December 28, 1991 is as follows:

(In thousands)	1992	1991
Vested benefit obligation	\$ (1,061)	\$ (1,166)
Accumulated benefit obligation	\$ (1,155)	\$ (1,508)
Projected benefit obligation	\$ (8,195)	\$ (11,377)
Fair market value of plan assets	4,830	4,035
Projected benefit obligation in excess of plan assets	(3,365)	(7,342)
Unrecognized net (gain)	(8,398)	(4,017)
Unrecognized prior service cost	6,077	6,567
Accrued pension costs	\$ (5,686)	\$ (4,792)

The assumptions used to measure net periodic pension cost for these defined benefit plans were as follows:

	1992	1991	1990
Discount rate	8.5%	8.5%	8.5%
Expected long-term return on assets	8.5%	8.5%	8.5%
Average increase in compensation levels	5.5%	5.5%	5.5%

Plan assets of the U.S. and Puerto Rico plans consist primarily of listed stocks and bonds, repurchase agreements, money market securities, U.S. government securities and stock index derivatives.

The Company has defined benefit pension plans in certain foreign countries where required by statute. The Company's funding policy for foreign defined benefit plans is consistent with the local requirements in each country. Pension expense for 1992, 1991 and 1990 for the foreign plans included the following:

(In thousands)	1992	1991	1990
Service cost-benefits earned during the year	\$5,373	\$5,119	\$4,420
Interest cost of projected benefit obligation	4,652	3,559	2,919
Actual investment loss (return) on plan assets	554	(8,328)	(2,462)
Net amortization and deferral	(5,620)	4,794	(489)
Net pension expense	\$4,959	\$5,144	\$4,388

The funded status of these foreign defined benefit plans as of December 26, 1992 and December 28, 1991 is set forth in the following tables:

1992 (In thousands)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Vested benefit obligation	\$(22,589)	\$ (2,401)
Accumulated benefit obligation	\$(23,696)	\$ (4,936)
Projected benefit obligation	\$(36,545)	\$ (9,414)
Fair market value of plan assets	32,278	2,037
Projected benefit obligation in excess of plan assets	(4,267)	(7,377)
Unrecognized net loss (gain)	5,935	(586)
Unrecognized net transition obligation	104	759
Prepaid (accrued) pension costs	\$ 1,772	\$ (7,204)

1991 (In thousands)	Assets Exceed Accumulated Benefits
Vested benefit obligation	\$(19,477)
Accumulated benefit obligation	\$(22,376)
Projected benefit obligation	\$(36,396)
Fair market value of plan assets	36,818
Projected benefit obligation less than plan assets	422
Unrecognized net (gain)	(3,127)
Unrecognized net transition obligation	877
(Accrued) pension costs	\$ (1,828)

Assumptions used to measure the foreign net periodic pension costs were as follows:

(In thousands)	1992	1991	1990
Discount rate	5.5%-24%	5.5%-24%	5.5%-24%
Expected long-term return on assets	5.5%-24%	5.5%-24%	5.5%-24%
Average increase in compensation levels	4.5%-18%	4.5%-18%	4.5%-18%

Plan assets of the foreign plans consist primarily of listed stocks, bonds and cash surrender value life insurance policies.

OTHER POSTEMPLOYMENT BENEFITS

In 1990, the Financial Accounting Standards Board issued FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" to be implemented for years beginning after December 15, 1992. As of December 26, 1992, the Company does not offer these types of benefits and therefore does not expect to be impacted by this statement. The Com-

pany also does not expect to be materially impacted by FAS No. 112, "Employers' Accounting for Postemployment Benefits," issued in November 1992 and effective for years beginning after December 15, 1993.

COMMITMENTS

The Company leases a portion of its capital equipment and certain of its facilities under leases which expire at various dates through 2009. Rental expense was \$39.3 million in 1992, \$50.2 million in 1991, and \$52.1 million in 1990. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 1993—\$15.3 million; 1994—\$10.3 million; 1995—\$5.7 million; 1996—\$1.5 million; 1997—\$1.1 million and 1998 and beyond—\$2.6 million. Commitments for construction or purchase of property, plant and equipment approximated \$835 million at December 26, 1992.

CONTINGENCIES

On September 18 and November 27, 1991, civil lawsuits were filed in the U.S. District Court for the Northern District of California against the Company and certain of its officers. These lawsuits were filed by Intel stockholders who claimed, on their own behalf and on behalf of a class of others similarly situated, that they were injured by a drop in the Company's stock price which resulted from lower earnings projections for the third quarter of 1991. On May 26, 1992, each of these suits was dismissed without prejudice by the court after the plaintiffs had voluntarily withdrawn their complaints.

On August 29, 1991, the Company was sued by Advanced Micro Devices, Inc. (AMD) in the U.S. District Court for the Northern District of California, alleging violations of the U.S. antitrust laws and claiming \$2 billion damages and requesting treble damages under the antitrust laws. Intel believes the suit to be without merit and has filed motions for dismissal and for summary judgment. Intel's motion to dismiss a significant portion of AMD's allegations was granted on December 17, 1991. No trial date is currently set. Intel intends to continue to defend these allegations vigorously. While the ultimate outcome of these claims cannot be determined at this time, management, including internal counsel, does not believe that the ultimate outcome will have a material adverse impact on the Company's financial position.

In 1987, the Company was served with a demand for arbitration by AMD under which AMD alleged that the Company had breached specific provisions of a technology exchange agreement between the parties and had committed other such acts allegedly injurious to AMD. AMD's demand sought monetary damages of \$2.2 billion. In addition, AMD asked the arbitrator to order transfer of certain product technology to AMD. The Company also made certain counterclaims against AMD.

In 1989, the arbitrator issued an initial written decision on one product claim. On October 11, 1990, the arbitrator issued a decision that resolved all remaining liability issues. The latter

decision did not require Intel to transfer the Intel386™ microprocessor, the 8087 math coprocessor or any other product to AMD. The decisions did state Intel breached the contract by failing to fulfill covenants of good faith and fair dealing in its relationship with AMD and by failing to transfer the 8087 and timely updates to the 80286. On February 24, 1992, the arbitration proceeding was concluded with the release of the final decision of the arbitrator. In this decision, AMD was awarded \$15 million in damages for lost profits and interest and the decision purported to grant rights to the Company's intellectual property, including trade secrets, used by AMD in its imitation 80386 microprocessors. In addition, the arbitrator purported to extend AMD's rights under the 1976 patent license agreement as those rights may be used on its 80386 microprocessor through December 31, 1997. The Company was allowed to retain approximately \$23 million in disputed royalties previously paid by AMD under protest. The \$23 million in royalty revenue and the \$15 million in damages are reflected in the Company's 1992 financial results. The Company filed a petition in Santa Clara County, California Superior Court to set aside those portions of the arbitrator's award which the Company felt were outside the jurisdiction of the arbitrator. AMD brought a motion in the same court to have the arbitrator's award entered as an order of the court. The Superior Court confirmed the arbitrator's award, including the portions which the Company had moved to have set aside. The Company has appealed this ruling with respect to those portions to the California Appellate Court. No hearing date has been set.

In 1983 Hughes Aircraft Corporation (Hughes) filed a lawsuit in a U.S. Federal Court alleging patent infringement on certain ion implant patents and asked for damages and an injunction against further infringement. On June 19, 1992, the Company and Hughes signed a final settlement agreement under which the Company paid Hughes \$35 million and all claims and counterclaims were dismissed with prejudice by the Court. The settlement is reflected in the Company's 1992 financial results.

The Company has been named to the California and Federal Superfund lists for three of its sites and has completed, along with two other companies, a Remedial Investigation/Feasibility Study with the Federal Environmental Protection Agency (EPA) to evaluate the ground water in a certain area related to one of its sites. The Company has reached agreement in principle with those same two companies which significantly limits the Company's liabilities under the proposed cleanup plan. In addition, the Company has done extensive cleanup and studies of its sites. In the opinion of management, the potential liability, if any, to the Company arising out of these matters will not have a material adverse effect on the Company's financial position.

The Company is party to various other legal proceedings. In the opinion of management, including internal counsel, these proceedings will not have a material adverse effect on the financial position or overall trends in results of operations of the Company.

INDUSTRY SEGMENT REPORTING

Intel and its subsidiaries operate in one dominant industry segment. The Company is engaged principally in the design, development, manufacture, and sale of microcomputer components and related products at various levels of integration. No one customer accounted for more than 10% of revenues in 1992, 1991 or 1990. Major operations outside the United States include manufacturing facilities in Ireland, Israel, Malaysia, and the Philippines, and sales subsidiaries in Japan, Asia Pacific, and throughout Europe and other parts of the world. Summary balance sheet information for operations outside of the United States at fiscal year-ends is shown in the table at right:

(In thousands)	1992	1991
Total assets	\$1,715,590	\$1,220,673
Total liabilities	\$ 434,338	\$ 302,672
Net property, plant and equipment	\$ 577,818	\$ 392,654

Geographic information for the three years ended December 26, 1992 is presented in the table below. Transfers between geographic areas are accounted for at amounts which are generally above cost and consistent with rules and regulations of governing tax authorities. Such transfers are eliminated in the consolidated financial statements. Operating income by geographic segment does not include an allocation of general corporate expenses. Identifiable assets are those assets that can be directly associated with a particular geographic area. Corporate assets include cash and cash equivalents, short-term investments, prepaid taxes on income, other current assets, long-term investments and certain other assets.

(In thousands)	Sales to Unaffiliated Customers	Transfers Between Geo- graphical Areas	Net Revenues	Operating Income	Identifiable Assets
1992					
United States	\$3,018,391	\$2,339,358	\$5,357,749	\$1,313,098	\$3,760,737
Europe	1,434,639	47,300	1,481,939	160,251	936,957
Japan	451,849	70,439	522,288	53,447	282,276
Asia Pacific	938,782	595,091	1,533,873	127,341	321,083
Other	323	444,304	444,627	269,429	175,274
Eliminations	—	(3,496,492)	(3,496,492)	27,778	(751,182)
Corporate	—	—	—	(461,298)	3,363,443
Consolidated	\$5,843,984	—	\$5,843,984	\$1,490,046	\$8,088,588
1991					
United States	\$2,328,946	\$1,949,362	\$4,278,308	\$ 943,156	\$3,087,447
Europe	1,057,205	23,942	1,081,147	113,551	620,933
Japan	492,218	37,346	529,564	40,309	252,219
Asia Pacific	899,858	466,582	1,366,440	121,362	209,334
Other	389	308,137	308,526	165,330	138,187
Eliminations	—	(2,785,369)	(2,785,369)	73,858	(700,429)
Corporate	—	—	—	(377,626)	2,684,413
Consolidated	\$4,778,616	—	\$4,778,616	\$1,079,940	\$6,292,104
1990					
United States	\$2,115,957	\$1,202,272	\$3,318,229	\$ 788,363	\$2,494,462
Europe	865,544	17,602	883,146	112,456	363,214
Japan	400,167	8,779	408,946	28,759	259,065
Asia Pacific	539,054	268,748	807,802	129,297	194,689
Other	552	215,630	216,182	92,856	114,527
Eliminations	—	(1,713,031)	(1,713,031)	(11,905)	(517,772)
Corporate	—	—	—	(281,491)	2,468,123
Consolidated	\$3,921,274	—	\$3,921,274	\$ 858,335	\$5,376,308

SUPPLEMENTAL INFORMATION (Unaudited)

Quarterly information for each of the two years in the period ended December 26, 1992 is presented on page 31.

**REPORT OF ERNST & YOUNG
INDEPENDENT AUDITORS**

**THE BOARD OF DIRECTORS
AND STOCKHOLDERS
INTEL CORPORATION**

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 26, 1992 and December 28, 1991, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 26, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as

evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 26, 1992 and December 28, 1991, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 26, 1992, in conformity with generally accepted accounting principles.

Ernst & Young

San Jose, California
January 12, 1993

FINANCIAL SUMMARY

Ten Years Ended December 26, 1992	Net Investment In Property, Plant & Equip.	Total Assets	Long-term Debt and Put Warrants	Stockholders' Equity	Proceeds from Employee Stock Plans & Tax Benefits	Additions to Property, Plant & Equipment
(In thousands)						
1992	\$2,815,925	\$8,088,588	\$621,778	\$5,444,634	\$193,188	\$1,228,201
1991	\$2,162,723	\$6,292,104	\$502,529	\$4,417,852	\$133,498	\$ 948,289
1990	\$1,657,568	\$5,376,308	\$344,605	\$3,591,506	\$101,392	\$ 679,546
1989	\$1,284,050	\$3,993,983	\$412,480	\$2,548,803	\$ 77,728	\$ 422,102
1988	\$1,122,459	\$3,549,736	\$479,273	\$2,080,054	\$ 82,094	\$ 477,460
1987	\$ 891,196	\$2,498,784	\$298,062	\$1,276,425	\$ 54,293	\$ 301,530
1986	\$ 779,321	\$1,977,352	\$286,600	\$1,245,227	\$ 26,911	\$ 154,827
1985	\$ 848,246	\$2,152,774	\$270,831	\$1,421,481	\$ 32,612	\$ 236,216
1984	\$ 778,282	\$2,029,399	\$146,306	\$1,360,163	\$ 37,236	\$ 388,445
1983	\$ 503,592	\$1,679,650	\$127,586	\$1,121,740	\$ 56,780	\$ 144,974

	Net Revenues	Cost of Sales	Research & Development	Operating Income (Loss)	Net Income (Loss)	Earnings Per Share	Dividends Declared Per Share
(In thousands—except per share amounts)							
1992	\$5,843,984	\$2,557,407	\$779,914	\$1,490,046	\$1,066,549	\$ 4.97	\$0.20
1991	\$4,778,616	\$2,315,559	\$618,048	\$1,079,940	\$ 818,629	\$ 3.92	\$ —
1990	\$3,921,274	\$1,930,288	\$516,747	\$ 858,335	\$ 650,261	\$ 3.20	\$ —
1989	\$3,126,833	\$1,720,979	\$365,104	\$ 557,314	\$ 391,021	\$ 2.07	\$ —
1988	\$2,874,769	\$1,505,925	\$318,331	\$ 594,313	\$ 452,922	\$ 2.51	\$ —
1987	\$1,907,105	\$1,043,504	\$259,794	\$ 245,936	\$ 248,055	\$ 1.38	\$ —
1986	\$1,265,011	\$ 860,680	\$228,250	\$ (195,259)	\$ (203,165)	\$ (1.16)	\$ —
1985	\$1,364,982	\$ 943,435	\$195,171	\$ (60,169)	\$ 1,570	\$.01	\$ —
1984	\$1,629,332	\$ 882,738	\$180,168	\$ 250,450	\$ 198,189	\$ 1.13	\$ —
1983	\$1,121,943	\$ 624,296	\$142,295	\$ 138,717	\$ 116,111	\$.70	\$ —



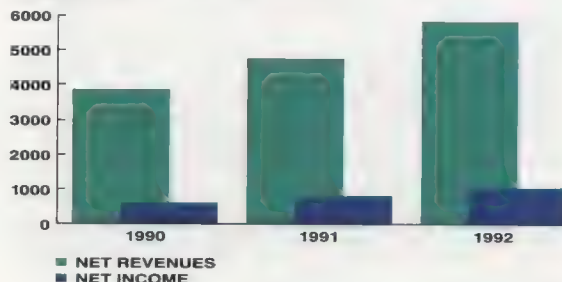
Members of Intel's Treasury department, left, use state-of-the-art technology and investment techniques to manage a \$3 billion worldwide portfolio of cash and securities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Intel Corporation had another outstanding year in 1992. Net revenues and net income reached record levels of \$5.84 billion and \$1.07 billion, respectively. Net revenues rose by \$1.07 billion or 22% from 1991 to 1992 compared with growth of \$857 million or 22% from 1990 to 1991.

NET REVENUES AND EARNINGS
(\$ MILLIONS)



The Company's 32-bit microprocessor products drove most of the growth in revenues from 1990 to 1992. Higher volumes of Intel386™ and Intel486™ microprocessors, partially offset by lower average selling prices, accounted for the bulk of the overall revenue increase from 1990 to 1991. From 1991 to 1992, the growth was driven primarily by increased volumes of the Intel486 CPU product family, as market demand continued to transition toward higher-performance CPUs. The Company's Q4 1992 revenues increased by 54% over Q4 1991, boosted by increasing demand for the Intel486 CPU family of products. Volumes and average selling prices for the Company's older Intel386 CPUs deteriorated during 1992, due to competition and product maturity. Math coprocessor revenues decreased sharply from 1990 to 1991 and, to a lesser extent, from 1991 to 1992, as a result of competition and price cuts.

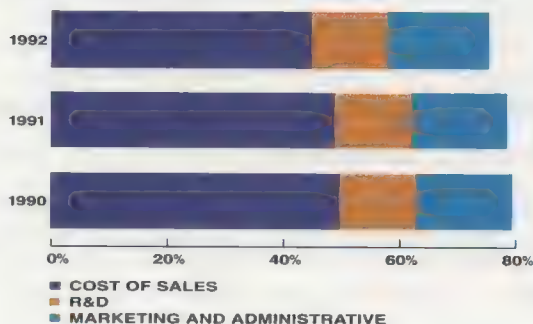
As a percentage of revenues, gross margin improved to 56% in 1992, compared to 52% in 1991 and 51% in 1990. The increase in gross margin percentage from 1991 to 1992 is primarily due to a richer product mix (i.e., increased volumes of the Intel486 CPU family of products relative to other products) and better factory capacity utilization. The improvement from 1990 to 1991 was also related to product mix, as higher volumes of Intel486 CPUs offset price declines for math coprocessors and certain maturing Intel386 microprocessors. Prices for advanced Intel486 microprocessors generally followed a normal price maturity curve during the 1990-1992 period, although the Company did make significant price cuts on certain Intel486 CPUs during 1992. During 1991, sales of all 32-bit microprocessor products comprised a majority of the Company's revenues and a substantial majority of its gross margin. During 1992, sales of the Intel486 CPU family of products comprised a majority of the Company's revenues and a substantial and growing majority of its

gross margin. The gross margin percentage increased sharply late in 1992 due to higher Intel486 CPU volumes. Gross margin was 61% in Q4 1992 compared to 52% in Q4 1991.

For 1992, operating income was \$1.49 billion, an all-time high and a 38% improvement over 1991. From 1990 to 1991, operating income increased by 26%. Research and development spending continued at high levels throughout the 1990-1992 period, as the Company invested heavily in internal microprocessor technologies and processes considered critical to its future success. As a percentage of revenues, research and development expenses remained at 13% during 1992, 1991 and 1990.

The growth in marketing and administrative expenses from 1990 through 1992 was fueled by higher spending for personnel expenses related to overall business growth and strategic marketing programs.

OPERATING COSTS AND EXPENSES
(PERCENT OF REVENUES)

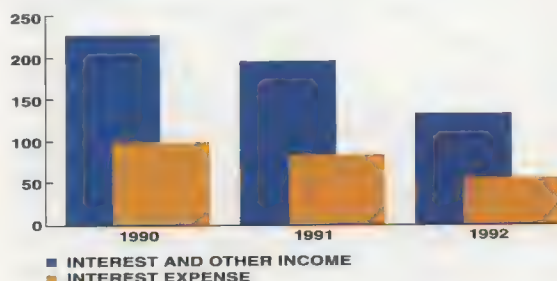


Expenditures for brand-awareness merchandising efforts increased significantly in 1992, and the Company's successful Intel Inside® program, which supplies OEM cooperative advertising, launched in 1991, also continued to grow during 1992. The Company also incurred higher bad debt expenses, principally in Q4 1992, due to volatile economic conditions in the micro-computer industry and changes in the Company's customer base. As a percentage of revenues, marketing and general and administrative expenses increased from 16% in 1990 and 1991 to 17% in 1992.

Interest expense decreased by \$27 million from 1991 to 1992, and by \$18 million from 1990 to 1991, primarily as a result of declines in average interest rates on borrowings.

Interest and other income was \$133 million in 1992, a decrease of \$63 million compared to the previous year. The decrease primarily reflects lower average interest rates on investments in 1992 and a \$15 million charge to income during Q1 1992 to cover damages payable to Advanced Micro Devices, Inc. (AMD) under an arbitration decision. Interest and other income decreased by \$31 million from 1990 to 1991, mainly as a result of lower

OTHER INCOME AND EXPENSE (\$ MILLIONS)



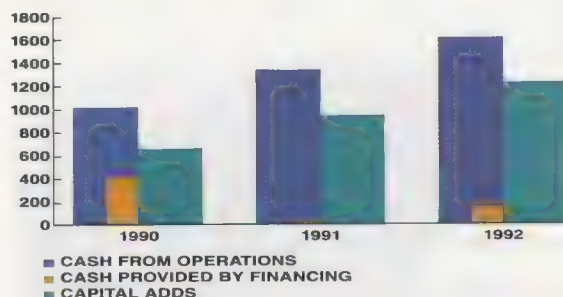
average interest rates on investments during 1991, partially offset by higher investment balances.

The effective income tax rate was 32.0%, 31.5% and 34.1% in 1992, 1991 and 1990, respectively. The slight increase in the effective tax rate from 1991 to 1992 is primarily due to a \$20 million adjustment in 1991 (due to settlement of a tax dispute with the IRS). The decrease in the effective tax rate from 1990 to 1991 was due to the tax settlement and greater tax benefits associated with foreign sales in 1991 compared to 1990. The Company expects a higher effective tax rate in 1993.

FINANCIAL CONDITION

The Company's financial condition remains very strong. As of December 26, 1992, total cash and short- and long-term investments were \$3.33 billion, an increase of \$575 million compared to December 28, 1991. Cash generated from operating activities was \$1.63 billion in 1992 compared to \$1.35 billion in 1991 and \$1.02 billion in 1990. The increase in 1992 primarily reflects higher net income and non-cash charges related to depreciation on the Company's expanding capital base.

SELECTED CASH FLOWS (\$ MILLIONS)



Investing activities consumed \$1.48 billion in cash during 1992, compared to \$1.46 billion during 1991 and \$879 million during 1990. Capital expenditures increased substantially in 1992, as the Company continued to invest in the property, plant and equipment necessary for future business requirements, including increasingly complex

manufacturing technologies. Capital expenditures reached \$1.23 billion in 1992, compared to \$948 million in 1991 and \$680 million in 1990. The Company expects to spend approximately \$1.6 billion for capital additions in 1993, and approximately \$835 million had been committed as of the end of 1992 for the construction or purchase of property, plant and equipment.

Cash provided by financing activities totalled \$168 million, \$9 million, and \$417 million in 1992, 1991, and 1990, respectively. The unusually high level of cash generated through financing activities in 1990 reflects \$393 million in proceeds from the exercise of warrants during that year. The Company funded most of its investment needs during 1991 and 1992 with cash generated from operations.

Under its authorized stock repurchase program, the Company had the potential obligation at December 26, 1992 to buy back 7 million shares of its Common Stock at an aggregate price of \$373 million.

Other sources of liquidity include credit lines and authorized commercial paper borrowing levels of approximately \$750 million and \$700 million, respectively, as of December 26, 1992. At the end of 1992, only \$126 million was outstanding under credit lines and \$6 million under commercial paper arrangements. In November 1992, the Company filed a Registration Statement with the Securities and Exchange Commission (SEC) for a proposed offering of Stock Index Warrants with an aggregate initial price of up to \$150 million. These warrants may be sold from time to time by the Company. The Company also retains the authority to issue up to \$150 million in debt securities and up to 2 million foreign currency exchange units under a shelf registration filed with the SEC in 1988.

The Company declared and paid its first quarterly dividend in 1992. The Company intends to maintain the dividend program as long as earnings levels and retained earnings are deemed adequate by the Board of Directors.

The Company believes that it has the financial resources needed to meet future business requirements, including capital expenditures, strategic operating programs and the cash dividend program.

OUTLOOK

Despite the favorable financial results described above, future revenue and profitability trends remain difficult to predict. The Company continues to face a number of risks, including intense competition, uncertain business conditions in the microcomputer industry and the general economy, ongoing legal matters, and the increasingly rapid pace and high cost of microprocessor product and process technology development.

The Company takes appropriate legal action to protect its intellectual property. These efforts received a major boost in December 1992, when a federal judge ruled that AMD

does not have the rights to copy any of Intel's processor microcode under a 1976 contract. This ruling extended a June 1992 jury decision which found that AMD had no right to copy Intel287™ processor microcode under this contract. The Company is also a party to other legal matters (see Notes to Consolidated Financial Statements—Contingencies). Some companies have developed imitations of certain Intel products, including the Intel386 and Intel486 microprocessors. Intel believes that several of these products infringe Intel patents and these companies do not have patent licenses from Intel. However, these companies have arranged with other companies which do have patent licenses with Intel (commonly referred to as "foundry services") to manufacture their infringing products for them, and claim that by doing so, the products therefore do not infringe. Intel does not believe that when a licensee provides foundry services with respect to a product which infringes an Intel patent, that the developer's infringing product is immune from patent infringement claims. This issue is currently before the courts in various patent infringement cases. If the cases were to be decided adversely to Intel,

unlicensed imitators would be able to avoid patent infringement actions through affiliations with licensed foundries.

Spending on strategic marketing and internal research and development programs is expected to continue at high levels. The Company regards these investments as vital to the long-term competitive and technological success of Intel.

The Company expects its advanced Intel486 microprocessors to follow normal price maturity curves, but some distortion could occur as imitation products enter the market. Booking trends for the Intel486 CPU family of products are very strong. The Company expects to introduce the first member of the next generation of high-performance processors, the Intel Pentium™ processor, in 1993. Although the Company believes that it has the product offerings and resources necessary for continued success, precise revenue and margin trends cannot be determined at this time.

FINANCIAL SUMMARY BY QUARTER

(Unaudited)

For Quarter Ended

(In thousands except per share data)

1992

		December 26	September 26	June 27	March 28
Net revenues		\$1,856,833	\$1,426,167	\$1,319,693	\$1,241,291
Cost of sales		\$ 724,542	\$ 640,871	\$ 610,570	\$ 581,424
Net income		\$ 428,559	\$ 240,759	\$ 213,160	\$ 184,071
Earnings per share		\$ 1.97	\$ 1.12	\$ 1.00	\$.86
Dividends per share ^(B)	Declared	\$.10	\$.10	\$ —	\$ —
	Paid	\$.10	\$ —	\$ —	\$ —
Market price range Common Stock ^(A)	High	\$ 90.00	\$ 66.63	\$ 57.88	\$ 68.50
	Low	\$ 62.50	\$ 55.13	\$ 47.00	\$ 48.75

For Quarter Ended

(In thousands except per share data)

1991

		December 28	September 28	June 29	March 30
Net revenues		\$1,205,449	\$1,187,703	\$1,252,686	\$1,132,778
Cost of sales		\$ 579,310	\$ 595,831	\$ 590,017	\$ 550,401
Net income		\$ 188,686	\$ 201,729	\$ 230,803	\$ 197,411
Earnings per share		\$.90	\$.96	\$ 1.10	\$.95
Market price range Common Stock ^(A)	High	\$ 47.50	\$ 52.50	\$ 58.50	\$ 51.75
	Low	\$ 38.50	\$ 41.00	\$ 43.75	\$ 38.00

(A) Intel's Common Stock is traded in the over-the-counter market and quoted on NASDAQ and in *The Wall Street Journal* and other newspapers. Intel's Common Stock also trades on the Zurich, Basle and Geneva, Switzerland exchanges. At December 26, 1992 there were approximately 18,974 holders of record of Common Stock. All Common Stock prices are closing prices per the NASDAQ/National Market System.

(B) Intel declared its first quarterly dividend in the third quarter of 1992.

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The Corporation's "Form 10-K"
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